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SEC FILE NO.

8-65484

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

Information required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 06/05/02 AND ENDING 12/31/03
mm/dd/yy mm/dd/yy

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

STOCKTON SECURITIES, INC.

OFFICIAL USE ONLY

FIRM ID. NO

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No)

800 SPRING STREET

(No and Street)

SAUSALITO

CALIFORNIA

94965

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

MICHAEL S. BLUM

(415) 332-7546

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose option is contained in this Report*

Ernst Wintter & Associates, Certified Public Accountants

(Name - if individual, state last, first, middle name)

675 Ygnacio Valley Road, Suite B-213,

Walnut Creek,

California

94596

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ (X) Certified Public Accountant

☐ () Public Accountant

☐ () Accountant nor resident in United State or any of its possession.

PROCESSED

APR 28 2004

THOMSON
FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the option of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

084727

OATH OR AFFIRMATION

I, **MICHAEL S. BLUM**, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **STOCKTON SECURITIES, INC.** as of **DECEMBER 31, 2003**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE

Michael S. Blum

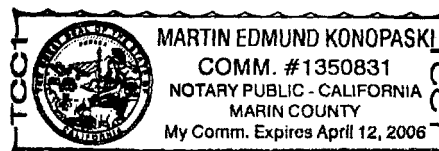
Signature

CFO

Title

[Signature]

Notary Public



This report** contains (check all applicable boxes):

- (X) (a) Facing page.
- (X) (b) Statement of Financial Condition.
- (X) (c) Statement of Income (Loss).
- (X) (d) Statement of Cash Flows.
- (X) (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- () (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (X) (g) Computation of Net Capital.
- (X) (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (X) (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (X) (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirement Under Exhibit A of Rule 15c3-3.
- () (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (X) (l) An Oath or Affirmation.
- () (m) A copy of the SIPC Supplemental Report.
- () (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (X) (o) Independent Auditor's Report on Internal Accounting Control.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Stockton Securities, Inc.
(A Development Stage Company)
Annual Audit Report
December 31, 2003

ERNST WINTER & ASSOCIATES
Certified Public Accountants

Stockton Securities, Inc.
(A Development Stage Company)

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675 Ygnacio Valley Road, Suite B-213
Walnut Creek, California 94596

(925) 933-2626
Fax (925) 944-6333

Independent Auditor's Report

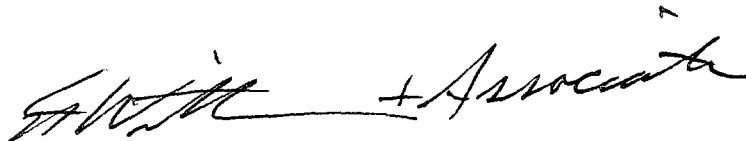
Board of Directors
Stockton Securities, Inc.
Sausalito, California

We have audited the accompanying statement of financial condition of Stockton Securities, Inc. (A Development Stage Company) as of December 31, 2003, and the related statements of income (loss), changes in stockholders' equity, and cash flows for the period June 5, 2002 to December 31, 2003 that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stockton Securities, Inc. (A Development Stage Company) at December 31, 2003, and the results of their operations and their cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I & II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 + Associates

March 3, 2004

Stockton Securities, Inc.
(A Development Stage Company)

Statement of Financial Condition

December 31, 2003

Assets

Cash and equivalents	\$ 12,414
Due from shareholder	233
Prepaid expenses and other assets	<u>627</u>
Total assets	<u>\$ 13,274</u>

Liabilities and Stockholders' Equity

Liabilities	\$ 0
Stockholders' equity	
Common stock (50,000,000 shares of no par value authorized; 25,000 shares issued and outstanding)	\$ 25,000
Additional paid-in capital	6,864
Deficit accumulated during the development stage	<u>(18,590)</u>
Total stockholders' equity	<u>13,274</u>
Total liabilities and stockholders' equity	<u>\$ 13,274</u>

See independent auditor's report and accompanying notes.

Stockton Securities, Inc.
(A Development Stage Company)

Statement of Income (Loss)

For the Period June 5, 2002 to December 31, 2003

Revenue	\$ 0
Expenses	
Professional fees	10,363
Other operating expenses	<u>7,427</u>
Total expenses	17,790
Loss before income taxes	<u>(17,790)</u>
Income tax provision	<u>800</u>
Net loss	<u>\$ (18,590)</u>

See independent auditor's report and accompanying notes.

Stockton Securiess, Inc.
(A Development Stage Company)

Statement of Changes in Stockholders' Equity

For the Period June 5, 2002 to December 31, 2003

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Stockholders' Equity</u>
June 5, 2002	\$ -	\$ -	\$ -	\$ -
Issuance of 25,000 shares of common stock	25,000			25,000
Additional paid in capital		6,864		6,864
Net loss			(18,590)	(18,590)
December 31, 2003	<u>\$ 25,000</u>	<u>\$ 6,864</u>	<u>\$ (18,590)</u>	<u>\$ 13,274</u>

See independent auditor's report and accompanying notes.

Stockton Securities, Inc.
(A Development Stage Company)

Statement of Cash Flows

For the Period June 5, 2002 to December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (18,590)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
(Increase) decrease in:	
Due from shareholder	(233)
Prepaid expenses and other assets	(627)
Net cash provided (used) by operating activities	<u>(19,450)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of stock	25,000
Capital contributions	6,864
Net cash provided (used) by financing activities	<u>31,864</u>

Net increase (decrease) in cash and cash equivalents	\$ 12,414
Cash and equivalents, beginning of the period	<u>-</u>
Cash and equivalents, end of the period	<u><u>\$ 12,414</u></u>

SUPPLEMENTAL DISCLOSURE

Income taxes paid	<u><u>\$ 800</u></u>
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See independent auditor's report and accompanying notes.

Stockton Securities, Inc.
(A Development Stage Company)

Notes to the Financial Statements

December 31, 2003

(1) Organization

Stockton Securities, Inc. (the Company), was founded in June 2002. The Company was accepted as a member of the National Association of Securities Dealers, Inc. (NASD) effective January 16, 2003. The purpose of the Company is to act as a broker dealer engaging in general securities activities. The Company expects to begin operations in 2004.

(2) Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company has defined cash equivalents as highly liquid investments with original maturities of three months or less that are not held for sale in the ordinary course of business.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

Income Taxes

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be treated as an S corporation. In lieu of corporate income taxes, the Company's income or loss is generally passed through to the shareholders' federal and state individual income tax returns. However, the Company is liable for California Franchise tax on S corporations.

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Stockton Securities, Inc.
(A Development Stage Company)

Notes to the Financial Statements

December 31, 2003

(3) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital (Rule 15c3-1) which requires the Company to maintain minimum net capital equal to or greater than \$5,000 and a ratio of aggregate indebtedness to net capital not exceeding 8 to 1, both as defined. At December 31, 2003, the Company's net capital was \$12,414, which exceeded the requirement by \$7,414.

(4) Income Taxes

Income tax expense consists of the 2003 California minimum franchise tax of \$800. There was no minimum California franchise tax for 2002. At December 31, 2003 the Company had California net operating loss carryforwards of \$10,217, which are due to expire in the year 2014. Deferred taxes were not significant at December 31, 2003.

(5) Related Party

At December 31, 2003, one shareholder owed the Company \$233 for cash advances.

(6) Development Stage Operations

The Company was formed on June 5, 2002. Since inception, operations have been devoted primarily to obtaining regulatory approvals, capitalization, and other administrative functions. The Company was initially capitalized with cash from the issuance of the Company's common stock as follows:

<u>Date</u>	<u>Number of Shares</u>	<u>Amount</u>
6/28/02	24,750	\$ 24,750
8/7/02	250	250
	<u>25,000</u>	<u>\$ 25,000</u>

SUPPLEMENTAL INFORMATION

Stockton Securities, Inc.
(A Development Stage Company)

Schedule I

**Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange
Commission**

As of December 31, 2003

Net Capital:

Total stockholders' equity qualified for net capital		\$ 13,274
Less: Non-allowable assets		
Due from shareholder	\$ 233	
Prepaid expenses and other assets	627	
Total non-allowable assets		<u>860</u>
Net capital		<u><u>\$ 12,414</u></u>
Net minimum capital requirement of 12.5% of aggregate indebtedness of \$0 or \$5,000, whichever is greater		<u>5,000</u>
Excess net capital		<u><u>\$ 7,414</u></u>

Reconciliation with Company's Net Capital Computation
(included in Part II of Form X-17A-5 as of December 31, 2003)

Net capital as reported in Company's Part II of Form X-17A-5 as of December 31, 2003	\$ 15,515
Decrease in stockholders' equity	(2,241)
Increase in non-allowable assets	(860)
Net capital per above computation	<u><u>\$ 12,414</u></u>

Stockton Securities, Inc.
(A Development Stage Company)

Schedule II

**Computation for Determination of Reserve Requirements
Pursuant to Rule 15c3-3 of the Securities and Exchange Commission**

December 31, 2003

An exception from Rule 15c3-3 is claimed, based upon section (k)(2)(ii). All customer transactions are processed in accordance with Rule 15c3-1(a)(2).

**Information for Possession or Control
Requirements Under Rule 15c3-3**

December 31, 2003

Not applicable

675 Ygnacio Valley Road, Suite B-213
Walnut Creek, California 94596

(925) 933-2626
Fax (925) 944-6333

Independent Auditor's Report on Internal
Accounting Control Required by SEC Rule 17a-5

Board of Directors
Stockton Securities, Inc.
Sausalito, California

In planning and performing our audit of the financial statements and supplemental schedules of Stockton Securities, Inc. (A Development Stage Company), the Company, for the period ended December 31, 2003, we considered its internal control including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payments for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

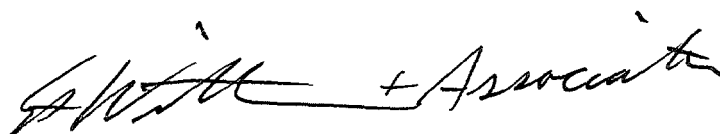
Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted the following matter involving the Company's internal control and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the financial statements of the Company for the period ended December 31, 2003, and this report does not affect our report thereon dated March 3, 2004.

The size of the business and the resultant limited number of employees impose practical limitations on the effectiveness of those internal control policies and procedures that depend on the segregation of duties. Because this condition is inherent in the size of the Company, the specific weaknesses are not described herein and no corrective action has been taken or proposed by the Company.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "G. W. Smith + Associates".

March 3, 2004